

Investment Idea



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NexG Bhd

Expanding into new earnings phase

By Thong Pak Leng, Vice President of Research

NexG Berhad (NEXG: 5216) offers a wide range of services including smart card personalisation, software development, systems integration, and project management. The company is planning to upgrade its machinery and acquiring a new 30,000sq ft factory. We expect NEXG to register earnings of RM106.4m and RM119.5m for FY3/26 and FY3/27. BUY with target price of RM0.61 based on 23x PER (a discount to regional sector average due to its smaller scale) over FY3/27 fully diluted (FD) EPS. Our FD EPS is based on the enlarged issued shares from private placement, fully exercised of ESOS and 1.39bn of warrants conversion divided into 3 years (assuming 1/3 being converted each year from FY3/26 to FY3/28).

NEXG is a prominent manufacturer of secure identity (ID) documents, covering everything from chip-enabled passports and national ID cards to polycarbonate biodata pages and special-category driving licenses. This suite of solutions is primarily deployed in national-scale, high-security projects such as Malaysian Passport issuance (Immigration Department), National ID issuance (Jabatan Pendaftaran Negara), and specialised driving license ID systems (JPJ). The company has an outstanding orderbook of about RM570m.

NEXG is planning to build a RM250m new high-security identity document production plant, marking its first major international capacity expansion. The new facility will be constructed in three phases, with each phase projected to generate revenue between USD100m and USD200m (RM421m to RM842m), depending on document type, country-specific standards, project scale, security feature complexity and solutions. This expansion project will be funded through borrowing, partially from private placement and internally generated funds.

To meet rising demand from government contracts, the company is acquiring a 30,000sq ft facility in the Klang Valley for RM18.4m, with an additional RM1.6m allocated for equipment upgrades, easing capacity strain at its fully utilised Petaling Jaya plant. Concurrently, NEXG is investing RM6m in R&D to advance biometric authentication, anti-fraud software, and mobile platforms, while RM4m is earmarked for ERP and IT system upgrades to support its digital-first operational strategy.

NEXG has proposed to undertake a private placement of up to 10% of the total number of issued shares to raise up to RM133.7m to finance its existing and future projects, acquisition of factory, repayment of borrowings, R&D cost and enhancement plans. The company has also issued 1.39bn warrants with an exercise price of RM0.2117 based on 1:1 ratio. These corporate actions are expected to have a dilutive impact on EPS but could potentially bring in up to RM428m in cash inflows, hence NEXG is well-capitalised to begin its international project while also fulfilling domestic growth commitments. We reckon the investment into the global secure ID facility is not only to elevate NEXG's earnings profile but also diversify its revenue base beyond Malaysia, paving the way for longer-term sustainability and resilience in a globally competitive market.

Technically Speaking

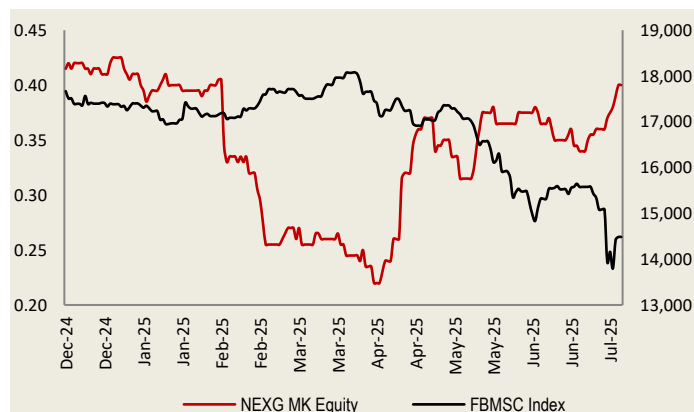
Resistance level	RM0.405
Support level	RM0.360



BUY

Price: RM0.40

Target price: RM0.61



KLCI	1,550.19
YTD FBM KLCI change	-5.6%
YTD FBM SC Index change	-13.0%
YTD stock price change	-2.4%

Stock Information

Market Cap (RM'm)	1,161.2
Issued Shares (m)	2,902.9
52-week range (H)	0.54
52-week range (L)	0.21
Shariah Compliant	Yes

Major Shareholders

Datuk Abu Hanifah bin Nordin	7.8%
Kuantum Juang SB	5.8%
Titian Tegang SB	4.6%

Summary Earnings Table

FY March (RM'm)	2024	2025	2026F	2027F
Revenue	368.3	373.5	384.7	403.9
EBITDA	153.1	169.3	162.9	179.1
Pretax profit	122.5	151.8	143.8	159.0
PATMI	92.3	115.5	106.4	119.5
Core PATMI	92.3	115.5	106.4	119.5
Consensus	-	-	100.3	105.7
Core EPS (sen)	3.1	3.9	3.6	4.0
FD Core EPS (sen)	3.1	3.9	2.7	2.7
EPS growth (%)	20.8%	25.2%	-7.9%	12.3%
DPS (sen)	2.8	3.1	2.1	2.1
PER (x)	12.9	10.3	11.2	9.9
BV/Share (RM)	0.12	0.14	0.11	0.12
ROE (%)	25.4%	29.1%	28.9%	36.0%
Div. Yield (%)	7.1%	7.8%	5.3%	5.3%

Sources: Company, Rakuten Trade Research



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COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Published:

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